

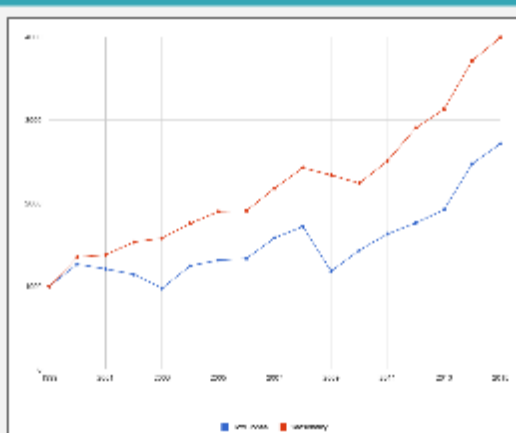
Seasonality

A brief explanation of an investment strategy. In layman.

What is Seasonality?

A way to invest in the stock market. Even in efficient markets, where security prices accurately reflect all relevant and recent information, many well-documented seasonal effects continue to exist in many markets. For many decades it's been well known that markets around the world have made most of their gains in a 'favorable season' that runs from roughly November to May, and have suffered most of their losses in an 'unfavorable season' that runs roughly from May to November. Thus, the old saying "Sell in May and go away". It has been proven in numerous academic studies over the years.[1][2][3]

Seasonality vs Dow Jones Result of a \$1,000 investment (1999 - 2014)^[4]



How does it work?

Using MACD (Moving Average Convergence and Divergence)[5][6] signals we can spot changes in market strength. Our eyes look to October & November for a signal to buy in and to April & May for a signal to sell. Typically, fall is the beginning of gaining market strength and spring is the breakdown of strength according to the seasonal strategy.[7]

We make two trades per year. Once to buy in and once to sell out. This allows us to keep costs at a minimum and have the amount of flexibility to move on a moment's notice. Keep in mind that past performance does not guarantee future results.

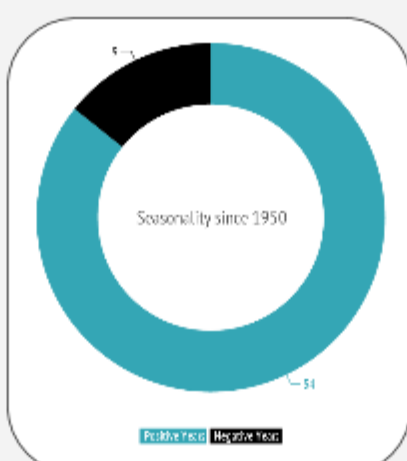
"Surprisingly we found this inherited wisdom of Sell in May to be true in 36 of 37 developed and emerging markets. Evidence shows that in the UK the seasonal effect has been noticeable since 1694."
- American Economic Review in 2002

"All U.S. stock market sectors, and 48 out of 49 U.S. industry sectors, performed better during winter than summer in our sampling from 1926-2006."
- Financial Review in 2008

The results are astounding applying the simple MACD signals...Impressive results for being invested during only 6.4 months of the year on average
- The Stock Trader's Almanac

6
Average number of months Seasonality is invested in the market.
[3]

50%
Average amount of exposure investors have to stock market risk.[3]



-14%
Largest annual loss since 1950 for Seasonality.[3]

86%
Success rate for Seasonality since 1950. 54 of the last 63 years.
[4]

Okay, but why does it work?

No one person or academic study has found the cause of the annual seasonality, only that it remains consistent. Even after becoming well-known in the 80's and the advancement in technology it has stayed true. A possible explanation, at least in the U.S., could be related to:

- Halloween, Thanksgiving, Christmas, Valentine's, Easter, and Mother's Day are all within the Seasonal period. The amount of consumer spending directly affects the stock market.[8]

- Publicly traded securities make capital gains & dividend distributions at the end of the year. Most accounts are set to automatically reinvest.

- Corporations make capital gains & distributions at the end of the year. Most accounts are set to automatically reinvest.

- Employers make contributions to employee retirement plans at year end. Most accounts are set to automatically invest.

- Employers pay all sorts of bonuses at year end.

- Tax refunds are in early spring.

- Hedge-Fund managers are usually paid year-end fees and bonuses.

- Small businesses close their books then pay themselves at year end.

So, although there is no exact cause & effect there are some notable events taking place between November & April that can have a direct affect on the stock market.

Ravenna Capital is dedicated to helping clients understand what they are doing with their investments. We understand how confusing the world of investing can be so we do our best to keep things simple. We would love the opportunity to explore to option of working together.

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Disclosures & References

- [1] Maberly, Edwin D.; Paylene M. Pierce (April 2004). "Stock Market Efficiency Withstands Another Challenge: Solving the "Sell in May/Buy after Halloween" Puzzle". *Sloan Journal* March 1 (1): 29-30
- [2] Mebane Faber. "Sell in May And Go Away Or The Seasonal Switching Strategy"
- [3] Hirsch & Hirsch (2014) - Stock Trader's Almanac 2014: 48-50
- [4] <http://www.seasonalinvestor.com/sip/>
- [5] Appel, Gerald (1999). *Technical Analysis Power Tools for Active Investors*. Financial Times Prentice Hall.
- [6] <http://en.wikipedia.org/MACD>
- [7] Hirsch & Hirsch (2014) - Stock Trader's Almanac 2014: 48
- [8] <http://www.seasonalreport.com/sip/>
- Keep in mind: past performance does not guarantee future results
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